

Message Text

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11
ACTION EA-14

INFO OCT-01 ADP-00 SS-15 EB-11 INR-10 L-03 H-03 RSC-01

RSR-01 /059 W
----- 070870

P R 270948Z JUL 73
FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC PRIORITY 9325
INFO AMEMBASSY BANGKOK
AMCONSUL HONG KONG
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
USLO PEKING
AMEMBASSY SEOUL
AMEMBASSY SINGAPORE

C O N F I D E N T I A L TAIPEI 4541

STADIS////////////////////////////////////

EO 11652: GDS
TAGS: EGEN, TW
SUBJECT: SENATE HEARINGS ON OPIC

REF: A) STATE 141296; B) TAIPEI 3459; C) TAIPEI 3088

SUMMARY: WE CONSIDER THAT THE CONTINUED AVAILABILITY
OF POLITICAL RISK INSURANCE TO US INVESTORS IS IMPORTANT TO THE
MAINTENANCE OF US OBJECTIVES ON TAIWAN. THESE
INCLUDE EFFORTS TO 1) "CONTINUE, AS JUSTIFIED, TO
PROVIDE EVIDENCE OF STRONG, HIGH LEVEL US SUPPORT OF
TRADE, INVESTMENT AND FINANCING WITH THE ROC,
AND OF US CONFIDENCE IN FUTURE PROSPECTS OF THE
ECONOMY," AND 2) "TO PROVIDE ADVISE AND ASSISTANCE,
INCLUDING OPIC GUARANTEES, TO US FIRMS CONSIDERING INVESTMENT
IN THE ROC" (REF C, PARA 3, C, (1) AND (2)). SINCE
US INVESTMENT ON TAIWAN IS MOVING TOWARD CAPITAL INTENSIVE
INPUTS WITH LONGER RETURN PERIODS, US FIRMS MAY WELL PLACE
GREATER RELIANCE IN FUTURE ON POLITICAL RISK INSURANCE
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GURARANTEES TO PROTECT THEIR INVESTMENTS AGAINST LONG
TERM UNCERTAINTIES. END SUMMARY.

2. IT IS US POLICY TO ENCOURAGE AMERICAN BUSINESS TO INVEST

IN AND TRADE WITH TAIWAN IN ORDER TO MAINTAIN THE ISLAND'S ECONOMIC VIABILITY DURING A PERIOD OF POLITICAL UNCERTAINTY (SEE ROC PARA). VALUE OF US INVESTMENTS APPROVED TO DATE IS IN NEIGHBORHOOD OF US\$350 MILLION, COMPARED TO TOTAL OPIC EXPOSURE OF US\$126.8 MILLION DOLLARS FOR INCONVEFERTIBILITY, 134.3 MILLION DOLLARS FOR EXPROPRIATION AND 122.8 MILLION DOLLARS FOR WAR INSURANCE. WHILE AGGREGATE US INVESTMENT IS FAIRLY SUBSTANTIAL, IN THE PAST IT HAS BEEN CONCENTRATED LARGELY IN THE ELECTRONICS INDUSTRY, WHERE INDIVIDUAL INVESTMENTS RANGE BETWEEN US\$5 AND US\$15 MILLION. THERE HAS NOT BEEN THE MASSIVE CAPITAL INVESTMENT FOUND IN OTHER AREAS, THE LOSS OF WHICH COULD AFFECT A US FIRM'S COMPETITIVE POSITION. WHILE ALL FIRMS WOULD BE LOATH TO LOSE THEIR PROFITABLE TAIWAN OPERATIONS, TAIWAN INVESTMENTS OF US FIRMS ARE, EXCEPT IN ONE OR TWO CASES, ONLY A MINOR PORTION OF THEIR TOTAL INTERESTS. CONSEQUENTLY, THE ECONOMIC AND , POLITICAL RAMIFICATIONS TO US FIRMS OF INVESTMENT ACTIVITIES HERE WOULD NOT BE COMPARABLE TO OTHER HIGH EXPOSURE AREAS AS THE CARIBBEAN OR THE MIDDLE EAST.

2. GREAT BULK OF US INVESTMENT WAS MADE BETWEEN 1965 AND 1970. SINCE EXPULSION OF ROC FROM UN IN FALL OF 1971, THERE HAS BEEN KEENER INTEREST BY US FIRMS IN OBTAINING POLITICAL RISK INSURANCE. WHILE MOST DECISIONS TO INVEST HERE HAVE BEEN BASED PRIMARILY ON ECONOMIC FACTORS SUCH AS THE RAPIDLY EXPANDING ECONOMY, LOW WAGE RATES, AND LIBERAL INVESTMENT INCENTIVES, THE AVAILABILITY OF OPIC INSURANCE HAS UNDOUBTEDLY ENCOURAGED INVESTMENT. MOST OF THE MAJOR US CORPORATIONS WHO HAVE INVESTED HERE SINCE THE ESTABLISHMENT OF OPIC HAVE OPIC GUARANTEES.

3. WHILE OPIC OPERATIONS ON TAIWAN IN THE PAST HAVE PROBABLY BEEN OF ONLY MARGINAL IMPORTANCE TO MANY INVESTMENT UNDERTAKINGS, WE BELIEVE THE FUTURE OPIC ROLE IS IMPORTANT TO TAIWAN'S CONTINUED ECONOMIC PROSPERITY AND ACHIEVING US OBJECTIVES. ONE OF THE US ECONOMIC/COMMERCIAL POLICY OBJECTIVES INCLUDED IN THE 1973 PARA INSTRUCTIONS (REF C) IS TO "PROVIDE ADVISE AND ASSISTANCE, CONFIDENTIAL

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INCLUDING OPIC GUARANTEES, TO US FIRMS CONSIDERING INVESTMENT IN THE ROC." ONE OF THE COURSES OF ACTION PROPOSED IS TO "CONTINUE TO FACILITATE INVESTMENT ACTIVITY OF US FIRMS" WHILE AT THE SAME TIME, "FOR THOSE INVESTMENT PROPOSALS THAT MIGHT INVOLVE ESTABLISHMENT OF RUNAWAY INDUSTRIES WHOSE PRODUCTION WOULD BE MAINLY FOR EXPORT TO THE US, ADVISE POTENTIAL INVESTORS OF US EXECUTIVE BRANCH EFFORTS TO REDUCE THE ATTRACTIVENESS OF TAX ADVANTAGES ASSOCIATED WITH SUCH INVESTMENT." (REF C). FUTURE INVESTMENT IS LIKELY TO BE CONCENTRATED MORE IN CAPITAL-INTENSIVE INDUSTRIES SUCH AS PETROCHEMICALS AND MACHINERY, REQUIRING LARGER INVESTMENTS WITH LONGER PAYOFF PERIODS. AND MANY CORPORATIONS MAY HEISTATE TO RISK LARGE SUMS IN THE ABSENCE OF POLITICAL RISK

INSURANCE. ALTHOUGH THERE IS LITTLE FEAR OF EXPROPRIATION, THE DISTANT POSSIBILITY OF TAIWAN'S REUNIFICATION WITH THE MAINLAND PROBABLY WOULD REQUIRE PRUDENT COMPANY MANAGERS TO INSURE AGAINST THIS RISK. LACK OF SUCH INSURANCE FROM EITHER PUBLIC OR PRIVATE INSTITUTIONS MIGHT WEAKEN TAIWAN'S INVESTMENT ATTRACTIVENESS. MOREOVER, PRIVATE CAPITAL MIGHT NOT BE ABLE OR WILLING TO INSURE AGAINST SUCH RISKS AT RATES ACCEPTABLE TO INVESTORS.

4. AT THIS JUNCTURE, HOWEVER, EMBASSY CONSIDERS OPIC'S IMPORTANCE TO ROC IS PRIMARILY POLITICAL. IF OPIC POLITICAL RISK INSURANCE SHOULD BE WITHDRAWN FROM TAIWAN BUT NOT OTHER COUNTRIES, THE ACTION COULD BE CONSIDERED AS A CLEAR SIGNAL OF REDUCED US INTEREST IN ROC. IF IT WERE WITHDRAWN AS PART OF A WORLDWIDE ABANDONMENT OF POLITICAL RISK INSURANCE, THE EFFECT WOULD BE MUCH LESS SEVERE, BUT STILL MIGHT AFFECT THE ROC AS EVIDENCE OF DECLINING US INTEREST IN OVERSEAS INVESTMENT.

5. GRC ENCOURAGES FOREIGN DIRECT INVESTMENT IN MANUFACTURING FACILITIES, AND REGARDS OPIC GUARANTEES AS PART OF THE OVERALL US COMMITMENT TO TAIWAN. AS FAR AS WE CAN DETERMINE, OPIC REQUIREMENTS HAVE NEITHER OCCASIONED DIFFICULTIES NOR CREATED PROBLEMS WITH GRC. SINCE THE OPIC GUARANTEE IS PRIMARILY REGARDED BY INVESTORS HERE AS INSURANCE AGAINST A LONG RANGE, EXTERNAL POLITICAL RISK, IT PLAYS ONLY A MINOR ROLE IN THEIR DEALS WITH LOCAL AUTHORITIES. TO OUR KNOWLEDGE NO US INVESTOR ON TAIWAN HAS EVER MADE A CLAIM ON OPIC INSURANCE. IN ANY CASE, OPIC REQUIREMENT OF AGREEMENT ON SUBROGATION AND CONFIDENTIAL

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MANDATORY ARBITRATION HAS NOT CREATED DIFFICULTIES WITH GRC OR UNDULY INVOLVED USG, PARTICULARLY IN ABSENCE OF ANY CLAIMS CASES.

6. THE AVAILABILITY OF OPIC INSURANCE TO US FIRMS INVESTING ON TAIWAN PROBABLY HAS HAD LITTLE OR NO DIRECT EFFECT ON "EXPORTING AMERICAN JOBS". US FIRMS' DECISIONS TO INVEST ABROAD HAVE PROBABLY NOT BEEN RELATED TO THE AVAILABILITY OF OPIC INSURANCE. MOST US FIRMS THAT WENT ABROAD PROBABLY DID SO FOR ECONOMIC REASONS WHICH THE AVAILABILITY OF OPIC INSURANCE WOULD AFFECT ONLY IN A SMALL MINORITY OF CASES. ONLY INsofar AS THE DECISION TO INVEST ABROAD WAS DIRECTLY RELATED TO BEING ABLE TO OBTAIN OPIC INSURANCE, COULD IT BE SAID THAT THE OPIC PROGRAM HAS ADVERSELY AFFECTED

US BALANCE OF PAYMENTS.

7. PRIOR TO THE BREAK IN ROC-JAPAN RELATIONS, JAPANESE GOVERNMENT OFFERED INVESTMENT GUARANTEES TO JAPANESE FIRMS ON TAIWAN THROUGH JAPANESE BANKING CIRCLES. WHILE THESE GUARANTEES ARE NO LONGER AVAILABLE, THERE HAS BEEN A RESURGENCE OF JAPANESE INVESTMENT HERE IN THE FIRST HALF OF 1973, ALTHOUGH THE AMOUNTS PER CASE ARE SMALL. MOST JAPANESE FIRMS ALSO HAVE HEDGED AGAINST

RISK OF EXPROPRIATION BY SETTING UP JOINT VENTURES OR ALLOWING
LOCAL INVESTORS A MINORITY INTEREST. EUROPEAN INVESTMENT,
EXCEPT FOR DUTCH PHILIPS, REMAINS INSIGNIFICANT. PHILIPS MANAGE-
MENT HAS TOLD US THEY PREFER TO DISPENSE WITH GOVERNMENT ASSIS-
TANCE IN ORDER TO PRKOVIDE MAXKIMUM FLEXIBILITY FOR COMPANY
OPERATIONS WITHOUT POLITICAL INTERFERENCE FROM GON.

8. EMBASSY OBSERVAIONS ON BLUM VISIT CONTAINED REFTEL B.
MCCONAUGHY

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<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 27 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973TAIPEI04541
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: TAIPEI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730768/abqcekln.tel
Line Count: 174
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A) STATE 141296; B) TAIPEI 3459; C) TAIPEI 3088
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 27 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27-Aug-2001 by boyleja>; APPROVED <29-Aug-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status:
Subject: SENATE HEARINGS ON OPIC
TAGS: EGEN, TW
To: STATE INFO BANGKOK
HONG KONG
JAKARTA
KUALA LUMPUR
PEKING
SEOUL
SINGAPORE

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005